HIGH ENERGY
BATTERIES (INDIA) LIMITED

SERVING THE NATION SINCE 1979

ISO 9001 : 2015, ISO 14001 : 2015 & ISO 45001 : 2018 Certified Company
CIN L36999TN1961PLC004606

Registered Office :
Esvin House,
P.B. No.5068, Perungudi,
Chennai - 600 096.
India

Ref: SECY/2024 - 25/027 May 31, 2024

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai 400 001

Scrip Code 504176

Dear Sirs,

Reg: Intimation of Changes in Credit Rating under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

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Pursuant to Regulation 30 read with Part – A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform that India Ratings & Research has affirmed the Outlook on Company's bank loans as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limit	-	-	-	INR 300	IND BBB-/Positive	Affirmed
Non-fund-based limit	-	-	-	INR 450	IND A3	Affirmed

The ratings reflect an improvement in HEBL's key credit metrics during FY24, despite weaker EBITDA margins and a reduction in FY24 revenue. However, the company remains an eminent supplier in silver zinc batteries. The ratings remain constrained by the company's customer concentration risk, high working capital intensive nature of operations, modest scale of operations along with exposure to volatility in key input prices.

The Positive Outlook continues to reflect HEBL's strong credit metrics, strong EBITDA margins and likely growth in its orderbook in FY25 leading to an improvement in the revenue.

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LAB / Unit : IV High Energy Batteries (India) Ltd., (Lead Acid Battery Plant) SFNo. 22-24, Rasipuram Road, Mathur - 622 515, Pudukkottai Dist. Phone: 7305071448
Website : www.highenergyltd.com

Registered Office :
Esvin House,
P.B. No.5068, Perungudi,
Chennai - 600 096.
India

The Credit Rating report will be uploaded in the Company's website www.highenergy.co.in.

Thanking you,

Yours faithfully,

For HIGH ENERGY BATTERIES (INDIA) LIMITED,

V ANANTHA
SUBRAMANIAN

Digitally signed by V ANANTHA SUBRAMANIAN
DN: c=IN, postalCode=600114, st=TAMIL NADU, street=46 GROUND FLOOR SBI COLONY MAIN ROADKANCHEEPURAMNANGANALLUR 600114, l=KANCHEEPURAM, o=Personal, title=6822, serialNumber=b5c9bd130f7aecf062e3249a16a3376aac256af8f52ce0ed7100f12cc2c4005f, pseudonym=68222023112310132326, 2.5.4.20=ffa6016f4c18974fe7a4b79228f61b0c738376471cb2a0a81c754ffa720c4bc0, email=CSANANTHA2012@GMAIL.COM, cn=V ANANTHA SUBRAMANIAN
Date: 2024.05.31 17:51:49 +05'30'

(V Anantha Subramanian)
Company Secretary

Encl: as above

India Ratings Affirms High Energy Batteries (India)'s Bank Loans at 'IND BBB-'/Positive

May 31, 2024 | Aerospace & Defense

India Ratings and Research (Ind-Ra) has affirmed High Energy Batteries (India) Limited's (HEBL) bank loans as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Fund-based limits	-	-	-	INR300	IND BBB-/Positive	Affirmed
Non-fund-based limits	-	-	-	INR450	IND A3	Affirmed

Analytical Approach

Ind-Ra continues to take a standalone view of HEBL for the rating review.

Detailed Rationale of the Rating Action

The ratings reflect an improvement in HEBL's key credit metrics during FY24, despite weaker EBITDA margins and a reduction in FY24 revenue. However, the company remains an eminent supplier in silver zinc batteries. The ratings remain constrained by the company's customer concentration risk, high working capital intensive nature of operations, modest scale of operations along with exposure to volatility in key input prices.

The Positive Outlook continues to reflect HEBL's strong credit metrics, strong EBITDA margins and likely growth in its orderbook in FY25 leading to an improvement in the revenue.

List of Key Rating Drivers

Strengths

- Robust credit metrics despite weaker EBITDA; likely to sustain over FY25-FY26
- Healthy EBITDA margins likely to sustain in FY25
- Decline in FY24 revenue; likely to grow in FY25
- Eminent supplier of the silver zinc batteries

Weaknesses

- Working capital intensive operations
- Exposure to volatile input prices
- Modest scale of operations and high concentration risk
- Dependence on budgetary allocation

Detailed Description of Key Rating Drivers

Robust Credit Metrics Despite Weaker EBITDA; Likely to Sustain over FY25-FY26**:** Despite a weaker EBITDA in FY24, HEBL's interest coverage (EBITDA/gross interest) improved to 11.5x, (FY23: 9.9x, FY22: 7.8x) due to reduced interest cost led by better working capital management. Additionally, the net leverage (net debt/EBITDA) improved to 0.2x in FY24 (FY23: 0.6x, FY22: 0.8x) owing to a reduction in working capital borrowings, led by a reduced order book position, while the cash position largely remained stable. Ind-Ra expects the company's net leverage to hover around 0.1x over FY25-FY26 owing to an improvement in the EBITDA levels, coupled with the absence of any debt-funded capex plans.

Healthy EBITDA Margins Likely to Sustain in FY25: During FY24, HEBL's margins remained strong despite declining marginally to 28.9% (FY23: 33.5%, FY22: 37.1%, FY21: 38.7%), due to an increase in the employee expense and other operating expenses, led by a rise in the expenditure on scientific research. HEBL's EBITDA margins improved substantially over FY17-FY24 to 28.9% from 13.7%, primarily backed by a change in the product mix, better absorption of fixed costs and discontinuation of loss-making lead-acid battery division. Ind-Ra expects HEBL's EBITDA margins to sustain at 29%-30% over FY25-FY26, despite the uncertainties regarding the incremental flow of development orders and exposure to raw material price fluctuations. Though fluctuation in silver prices could be passed on to the customers, the increased prices of other components could impact the margins. Sustainable EBITDA margins of over 25% remain a key monitorable for the agency.

Decline in FY24 Revenue; Likely to Grow in FY25: The company's revenue dipped to INR781 million during FY24 (FY23: INR928.3 million) owing to a delay in the receipt of orders from the government. However, the revenue grew at a CAGR of about 11% over FY19-FY24, backed by the government's thrust on the defence sector as well as its focus on awarding orders to indigenous players. Ind-Ra expects HEBL's FY25 revenues to be in the range of INR850 million-900 million and to improve further by 7%-10% yoy in FY26, backed by HEBL's confirmed order book of around INR674 million at end-February 2024, to be executed over 15-18 months, providing adequate revenue visibility in the short term.

Eminent Supplier of the Silver Zinc Batteries: According to the management, the company supplies silver zinc batteries to several defence authorities including naval defence, air force and space research organisations. With limited competition on the product supplied, HEBL derives around 60% revenues from naval defence-related orders and has a market leadership with a share of 65%-70%. Basis the management, HEBL is one of the two suppliers of silver zinc batteries to Indian Navy defence. HEBL's clientele includes Dte. General of Naval Armament that contributed 24% to FY24 revenue (FY23: 49%), Naval Science & Technology Laboratory 17% (3%), Advance System Laboratory 11% (6%), Air Headquarters 10% (7%) Brahmos Aerospace Pvt. Ltd. 5% (9%) and Bharat Dynamics Ltd. 8% (13%). Ind-Ra believes the company will continue to receive regular orders from Naval defence, considering its established presence in this segment.

Working Capital Intensive Operations: HEBL has a long working capital cycle mainly due to higher levels of inventory days which stood at 254 in FY24 (FY23: 209) consisting primarily of the silver used for manufacturing batteries as well as of other battery accessories and components for immediate replacement in case of repairable damages or failures caused in batteries already supplied. The company generally maintains an inventory cycle of six-to-eight months as it procures silver in bulk as and when the market offers a lower rate. As per Ind-Ra's calculations, the net working capital cycle for FY24 stood at 326 days (FY23: 306 days). At end-March 2024, the company held around 4 tonnes of silver to hedge any price risk fluctuations.

Exposure to Volatile Input Prices: HEBL's major raw materials include silver, zinc and copper, the prices of which are highly volatile due to external market factors. Any adverse increase in the raw material prices may lead to margin compression. While prices fluctuations in silver are passed on to the consumers on a timely basis, those for copper and zinc are not covered under price escalation clause, thus exposing the company to price fluctuations. Moreover, around 10% of the total raw material consumed by HEBL is imported, which exposes the company to certain forex risks.

Modest Scale of Operations and High Concentration Risk: HEBL's scale of operations, which is modest, is likely to improve in the medium term, post the general elections, led by the increase in governmental orders. HEBL's revenue mainly comes from the silver zinc segment (FY24: 92%; FY23: 96%). Also, government/government undertaking defence companies contributed 97% to the revenue in FY24 (FY23: 78%). HEBL's dependency on its sole product and the defence segment is likely to continue over near to medium term. While the company has several research and development projects in its pipeline to diversify its revenue base, the management believes the revenue contribution from the same may take a couple of years to materialise.

Dependence on Budgetary Allocation: The company derives a majority of its revenue from defence sector, which is dependent on budgetary allocation by the government. In recent years, increased budgetary allocation towards defence and indigenisation of components used in the sector has been positive for the local manufacturers in the sector. However, the uncertainty around budgetary allocation pertains.

Liquidity

Adequate: HEBL's liquidity is supported by its modest cash balances of INR7 million at FYE24 (FYE23: INR7 million) and sanctioned fund-based limits of INR300 million, the average utilisation of which was around 43% for the 12 months ended March 2024. The cash flow from operations improved to INR217 million at FYE24 (FYE23: INR142 million) owing to working capital changes and the free cash flow improved to INR166 million (INR7 million) on the back of modest capex levels. Ind-Ra expects the cash flow from operations for FY25 to remain in the range of INR110 million-INR130 million and free cash flow to remain positive over FY25-FY26 on account of strong EBITDA generation despite a high envisaged capex. HEBL's liquidity further benefits from the absence of any debt repayments in FY25 and FY26. The management has envisaged a capex of INR 154 million over FY25-FY26 for the research and development projects in the pipeline, to be internally funded. Ind-Ra believes the company will be able to meet its capex requirements from its internal accruals.

Rating Sensitivities

Positive: Any significant increase in the scale of operations (either revenues or profitability), orderbook visibility along with maintaining the credit metrics with the net leverage staying below 2x and the interest coverage above 4x, all on a sustained basis, could result in a positive rating action.

Negative: Significant deterioration in the revenues or profitability and/or a further elongation of the working capital cycle or deterioration in the liquidity position, leading to the interest coverage reducing below 4x, all on a sustained basis, could lead to a negative rating action.

About the Company

Incorporated in 1979, HEBL is part of Esvin group and is engaged in the manufacturing of hi-tech batteries for use in army, navy, air force, satellite launch vehicles and commercial batteries for auto and standby valve regulated lead acid battery applications. The company also exports products to various countries such as Sri Lanka, Malaysia, Algeria, Italy and Kyrgyzstan.

KEY FINANCIAL INDICATORS

Particulars	FY24	FY23
Revenue (INR million)	781	928
EBITDA (INR million)	226	311

EBITDA margin (%)	28.9	33.5
Gross interest coverage (x)	11.5	9.9
Net leverage (x)	0.2	0.6
Source: HEBL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook	
				6 March 2023	8 December 2021
Fund-based working capital limit	Long-term	INR300	IND BBB-/Positive	IND BBB-/Positive	IND BBB-/Stable
Non-fund-based working capital limit	Short-term	INR450	IND A3	IND A3	IND A3

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

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